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UNCLAS SECTION 01 OF 02 VILNIUS 000228

SIPDIS

E.O. 12958: N/A

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SUBJECT: BALTIC STATES AGREE ON A NEW NUCLEAR POWER PLANT IN LITHUANIA

1. (U) SUMMARY: The prime ministers of Latvia, Estonia and Lithuania declared their support February 27 for a common Baltic and EU energy policy and elaborated objectives for long-term Baltic energy cooperation. The common energy policy the PMs endorsed anticipates construction of a new nuclear energy reactor in Lithuania. The PMs did not discuss technical specifications for the reactor or establish a time frame for construction. The nuclear-focused strategy is a central element of Lithuania's plan to reduce the country's dependence on Russian energy. U.S.-based Westinghouse is a potential beneficiary of this development, but it faces tough competition from a Franco-German consortium that may have the inside track. END SUMMARY.

A COMMON ENERGY POLICY

2. (U) Estonian PM Andrus Ansip, Latvian PM Aigars Kalvitis, and Lithuanian PM Algirdas Brazauskas met February 27 in Trakai, a popular tourist destination outside of Vilnius to discuss a joint energy strategy for the three Baltic countries. Immediately following the meeting, the ministers issued a joint declaration and joint communique. (We shall report the text of the declaration and communique septel.) In the communique, the PMs expressed support for a new nuclear reactor in Lithuania. The announcement constitutes an about-face for GOL energy policy. During its negotiations to join the EU, Lithuania pledged to decommission the two Soviet-built nuclear reactors at Ignalina nuclear power plant. The GOL took the first offline in December 2004. The second will close by or before the end of 2009.

WHY NOW?

3. (SBU) Dr. Anicetas Ignatas, a Ministry of Economy Undersecretary responsible for energy security policy, told us March 2 that the GOL initiated this meeting because "the time was right." A constellation of events, Ignotas said, compel Baltic cooperation. These include:

- the EU's drafting of a new energy policy that describes the Balts as an "energy island" with no direct connection to the EU and its energy supplies;
- the recent disruptions of Russian-supplied gas to Ukraine and the Caucasus;
- high oil and gas prices; and
- the German-Russian agreement to build a Baltic Sea pipeline that bypasses Estonian, Latvian, and Lithuanian territory.

Ignotas also claimed that all three Baltic countries anticipate receiving payments from carbon-credit trading from Kyoto Treaty members who will exceed their carbon-emissions quotas -- especially EU-15 countries. He said that the Balts agreed that spending this windfall on carbon-free nuclear power generation capacity made sense.

4. (SBU) Ignotas maintained that the GOL has spent more than a year laying the groundwork within the EU for this announcement, and opined that the PMs' statements should have taken no one in Brussels by surprise. He claimed that this preparatory work will pre-empt negative reactions from other EU members.

FEW DETAILS SETTLED

5. (SBU) The Trakai meeting set a broad political framework without spelling out specifics. The participants did not detail technical specifications, financing mechanisms, or the construction timetable for the nuclear reactor they will build. Vaclovas Miskinis, an influential advisor to the GOL on energy issues and the Head of the Laboratory of Energy Systems Research at the Lithuanian Energy Institute, told us that the PMs "are very far away from real discussions regarding the type of reactor" that the three countries might agree to build. Undersecretary Ignotas, who attended the Trakai meeting, emphasized that the process of choosing the type of reactor would be open and competitive. Both Miskinis and Ignotas dismissed press reports that suggested that the PMs had agreed to a definite construction date or reactor type.

GOL PLANS NATIONAL ENERGY STRATEGY

6. (U) Minister of Economy Kestutis Dauksys, in an interview published in a leading daily on March 1, said that his ministry is preparing a new national energy strategy. Only after the GOL

approves that strategy, he said, will the GOL decide whether and how to involve itself in the construction of a new nuclear power plant. The article did not suggest a timeframe for this decision.

17. (SBU) Ignotas, however, suggested that the GOL might take a slightly different approach. When we asked when the Ministry of Economy might submit this plan for GOL consideration, he said cryptically that the government needed to make some "big decisions" before drafting such a plan. He refused to elaborate, but the clear implication was that construction of the reactor would be a central element of the national energy strategy.

THE COMPETITION TO BUILD THE NEW PLANT -----

18. (SBU) Miskinis told us that several Western energy companies have already declared interest in investing in and/or building a new nuclear power plant in Lithuania. He said that French AREVA Group is a leading contender and that many experts believed that an EPR (European Pressurized Reactor) to be the best choice for Lithuania. The French-German consortium Framatome ANP, a subsidiary of AREVA, and Siemens, he noted, are currently building this type of reactor in Finland.

19. (SBU) Ignotas said that he thought the best approach for Lithuania would be to build two 700-900 megawatt reactors simultaneously to create a plant that would generate approximately 1600 megawatts. (NOTE: This would be the same electricity production capacity of the AREVA-Siemens reactor under construction in Finland.) Ignotas also said that the GOL was sending a team to Finland on March 13 to inspect the nuclear power plant under construction there.

110. (SBU) There is an American contender in the competition as well. This Mission has been working with Pittsburgh-based Westinghouse, which seeks to sell the GOL on the merits of its IRIS-type reactor. Westinghouse is working with a multinational consortium that includes Bechtel, Curtiss-Wright, Massachusetts Institute of Technology, and several other U.S. and foreign entities. The company is aware of the latest developments, and we are encouraging them to move quickly before Framatone runs away with the competition.

COMMENT -----

111. (SBU) The GOL is intensely concerned about energy security, and sees a new reactor as a way to reduce dependence on Russian energy. This vision's realization faces many obstacles, including lingering internecine rivalries and differing priorities among the three Baltic republics; the high cost of new reactors (carbon-trading "windfall" notwithstanding); and the GOL's accession agreement with the EU, which in the view of many Europeans commits Lithuania to a nuclear-free future. For our part, we will work to ensure that Westinghouse, as well as any other U.S. companies that join the bidding process, receive fair consideration as this prospective billion-dollar deal develops.

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